

# Beyond The Business Case and Sustainable chain management: Why Do We Need to Build a Theory of Interfirm Social Responsibility?

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**Abstract.** The purpose of the present article is to demonstrate the necessity of focusing on interfirm interactions when analysing the rise of socially responsible practices. The first section highlights problems with the standard business case's explanations for the connection between economic and socio-environmental performance, highlighting the limitations of this approach's firm-centric reasoning. A similar critique is offered as regards studies that focus on green/sustainable supply chains – simply bringing suppliers into the analysis adds to the range of actors being covered but does little to identify existing gaps in the literature. Section 3 uses the example of the automotive industry to show how the inconsistency between corporate social responsibility (CSR) discourse and practice becomes clear when interfirm interactions are taken into account. The conclusion suggests that achieving real progress in the development of socially responsible practices requires the construction of a theory of interfirm social responsibility based on an institutionalist framework.

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Over the past 20 years, corporate social responsibility (CSR) has become a central issue in corporate life and the driver behind many social science publications. One widely debated topic is corporate motivation. The question at this level is what incentives firms might have to implement CSR actions, defined in this paper as 'practices that improve the workplace and benefit society in ways that go above and beyond what companies are legally required to do' (Vogel, 2005: 2).

There are several ways of addressing this topic. Garriga and Melé (2004), for instance, have identified four main families of explanations, each of which can be broken down into several theories. The first two are called the political and ethical approaches. They converge to the extent that both justify CSR on the basis of motives transcending business life, considering that it is companies' duty to adopt socially responsible practices because they belong to a community that is greater than themselves. A third approach, revolving around so-called integrative theories, emphasises the idea that social demands can be compatible with a company's economic interest. Stakeholder theory (Donaldson & Preston, 1995; Freeman, 1994) explains, for instance, that companies must satisfy a range of interested parties – such as NGOs, customers, suppliers and residents' associations – but also shareholders. The idea here is that it can be rational to take measures that reduce short-term profits if they satisfy the interests of stakeholders' groups that are deemed to be strategic. In reality, this approach broadens the range of objectives that a company should seek to attain, while

responding to Friedman's criticism (1970) that the role of executives is only to make profits, since they work for shareholders – and for no one else. The consideration here is that a company's survival depends on more than profit maximisation alone. Lastly, a fourth approach seeks to neutralise Friedman's argument by explaining that, all in all, it is in a company's economic interest to engage in socially responsible practices. This approach has been described as instrumental by Garriga and Melé (2004) since it demonstrates the fundamental compatibility between economic and 'social' performance.

The latter approach has developed considerably in recent years and given birth to a whole body of work known collectively as 'the business case for corporate social responsibility' (see Caroll & Shabana, 2010, for a historical summary). The basic idea is that CSR should not be viewed as involving a choice between 'doing good' and 'being good to oneself' given that its 'win-win' dynamic is capable of reconciling socio-environmental objectives with economic ones. Discussion of the holy grail of 'saving the planet while making profits', featured in many studies, tends to revolve around two points: the conceptual foundations of this dynamic, with its doubly beneficial aspects, and the concrete levers enabling its implementation (Salzman et al., 2005; Caroll & Shabana, 2010). The approach has attracted a number of institutions, such as the European Union, for whom it constitutes an official doctrine<sup>1</sup>.

Yet questions might be asked about the suitability of the 'business case' approach in terms of its ability to provide a solution that is general as opposed to local. The question here is whether giving companies alone the responsibility for defining and designing socially responsible action might spark the emergence of a general solution to the problems faced today. Several authors have responded in the negative highlighting that this approach leads to firms creating their own definitions of what constitutes responsibility, even though the issues involved can only be dealt with at a meta-level (Brammer et al., 2012; Barnejee, 2008). Despite agreeing with this critique, the present article stresses another problem associated with this approach, namely the firm-centric nature of the reasoning it uses. Indeed, it is an approach that neglects interactions between firms, which is somewhat paradoxical given the emphasis it places on economic performance. Interfirm relationships are a crucial aspect of current production processes (and indeed a pillar of their performance). They are a locus for certain powerful trade-offs in which vertically connected firms engage. Thus, in this paper we wish to defend the thesis that if we want to improve our understanding of the way to implement CSR, we need to consider heavily interfirm interactions. We need to build a theory of interfirm social responsibility.

The article is organised as follows. The first section offers a rapid presentation of the theoretical background. We examine the business case approach and we highlight certain severe contradictions from which it suffers. Then we present recent studies addressing criticisms of the business case approach, relating specifically to the absence of consideration for suppliers and their role. Such critiques tend to adopt a relatively similar analytical approach, however, focusing on the objectives of firms considered individually and not in terms of their interactions. Section two presents the methodology for our empirical study. Section three uses the example of the automotive industry in order to show that when interfirm interactions are included in the equation, obvious contradictions arise between companies' pro-CSR rhetoric and the concrete, visible realities. Section four concludes by discussing the lessons that can be drawn from this case study. It suggests the need to develop a theorisation of interfirm social responsibility, something that a number of authors have already started to look at but which should be anchored more clearly in an institutionalist approach.

1. 'The experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company's competitiveness. Going beyond basic legal obligations in the social area, e.g. training, working conditions, management-employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness.' (CEC, 2001: 6-7)

## THEORETICAL BACKGROUND

### LIMITATIONS OF THE BUSINESS CASE'S FIRM-CENTRIC APPROACH

Studies that, altogether, constitute what is known as 'the business case for corporate social responsibility' seek to demonstrate that managers are in fact behaving rationally when they commit to CSR. Research in this area tends to pursue two objectives. First, it tries to show that moral or ethical arguments are not needed to justify commitment to CSR. The idea here is to prove that being socially and/or environmentally responsible is economically efficient. The issues of CSR are purely problems of optimisation and the values sustaining the problems of conceptualising 'how firms contribute to society' (Witt & Redding, 2012) are not at the core of the agenda. Second, it tries to show that there is no need for the state to intervene for regulatory purposes: CSR is bound to progress because it is in companies' interest. What this body of work reveals is the possibility of reconciling Friedman's argument (namely that managers' mission is to make profits) with the rise of socially responsible actions. Towards this end, the approach identifies actions reconciling these two objectives and demonstrating, based on economic calculation, that this can be socially and economically effective. Here, morality and ethics are replaced by utilitarianism. The state is not necessary since individual economic calculations, when done correctly, justify socially responsible action. Although the methodology seems simple, its implementation raises a lot of questions.

Underlying the business case approach is the hypothesis that it is possible to calculate that economic gain can offset the cost of a CSR-type measure. Here, a distinction can be made between two kinds of approaches.

The first adopts a very narrow utilitarian perspective, with CSR practices being construed as pure investments. After a parametric analysis, the future profitability of each practice can be determined. CSR commitment is more or less a simple problem of optimisation according to a cost/benefit analysis grounded in a substantive rationality hypothesis (e.g. McWilliams & Siegel, 2001; Husted & De Jesus Salazar, 2006).

The second approach, although based on utilitarian foundations, is more qualitative and broad because '*it recognizes direct and indirect relationships between CSR and firm performance*' (Carroll & Shabana, 2010: 93). The abundant body of work that tries to identify relationships of this kind follows three kinds of arguments.

The first involves proving how CSR investments enhance production process efficiency: 1) operational costs fall when eco-efficient technologies are adopted (consumption of materials, energy, water, etc.); 2) industrial accidents become less likely, leading to lower insurance premiums or pay-outs in the case of an accident but also enabling de-pollution and savings on post-production recycling costs, and 3) greater productivity and employee involvement thanks to CSR's ability to attract and retain the best staff members.

The second argument highlights the commercial opportunities that these practices help to obtain: 1) the company enhances its image in customers' eyes; 2) it can access specific new market sectors such as fair trade; 3) it benefits from higher sectorial barriers to entry.

The third argument refers to elements that are harder to measure and which largely relate to the dynamics of managerial learning. The crux here is that CSR helps firms increase their capacity to combine and foster new competencies, with the implementation of such practices becoming a vehicle for the companies' organisational transformations (Porter & Kramer, 2011). In this perspective, we are very far from the strict optimisation approach of authors like McWilliams and Siegel, because, by definition, the effects of CSR commitment

are hard to quantify. A firm's commitment to CSR does constitute an opportunity to improve the efficiency of the entire organisation.

Loosely speaking, in analytical methodology terms, authors working in this area have tried to catalogue the positive (or negative) effects on performance and CSR that might be expected from different actions (for example, reducing water consumption or implementing a code of conduct; see Schaltegger & Wagner, 2006). The value added by these articles often consists of the discovery of a new lever that relativises any older ones and offers a new reading of CSR measures<sup>2</sup>. Our assessment of these articles should not be construed as denigrating them, since we fully recognise that they contribute to a better understanding of CSR and its impact on firms. In addition, they open up interesting perspectives for managers by providing analytical matrices that can be used to identify potential levers. However, it remains that, in terms of concrete economic justification for increasing CSR commitments, this whole body of work is subject to four kinds of criticism.

**The variables chosen.** Researchers and practitioners are in a position where they are having to categorise variables influenced by CSR practices, the impact of which is itself variable and dependent on the orientations being pursued. At the same time, it is clear that certain practices can have both negative and positive effects on a company. This being the case, different authors compile different lists, often in a somewhat random fashion. It may well be true that it is management's responsibility to make CSR decisions reflecting a company's specific activities but, in and of itself, this does not suffice to address the general vagueness permeating this whole body of literature. What can be especially problematic is that some variables are not conducive to economic calculation, even if others are. The end result is more than a little arbitrariness.

**Calculability problems.** To repeat, some of the mechanisms envisaged in this body of work do not lend themselves to calculation. For example, how should one calculate the spending and resources associated with CSR's attractiveness to top employees, as described by Greening and Turban (2000)? A rigorous approach would require a calculation of productivity differentials but this is impossible in teamwork situations (Alchian & Demsetz, 1972). Similarly, ideally one would allocate some reputational cost to the actual attractiveness effect but it is unclear what this should be. And again, it is impossible to specify which timeframe (and hence discount rate) is relevant or should be used to assess the economic profitability of a measure aimed at bolstering brand reputation. It may be possible to calculate the economic return on energy-saving equipment – even if the volatility of raw material prices highlights the sensitivity of the calculation hypotheses – but such instances seem the exception rather than the rule.

**True-false novelty.** More 'philosophically', even if we were to pursue this latter approach, the question then becomes whether a calculation really involves a commitment to CSR practices or simply measures 'good management'. What is not clear is whether a company whose environmental report includes evidence of a profitable reduction in spending on raw materials (such as water) can actually be considered as engaging in CSR practices. After all, this may very well exemplify the kind of permanent cost-reduction policy that all companies are supposed to pursue.

**Unstable boundaries of the firm.** At the intersection between the two preceding points is the issue of a firm's boundaries and, maybe above all, the stability thereof. This area is subject to constant change in the wake of vertical disintegration/integration operations and/or the sales/acquisitions of activities. For example, the energy performance indicator used by automotive supplier Valeo deteriorated significantly between 2006 and 2007 following the sale of a subsidiary characterised by low capital intensity (Valeo, 2007: 58-59). This kind of volatility, caused by the changing boundaries of the firm, makes it extremely difficult to undertake global calculations at the corporate level.

2. The chapter written by Spirig (2006) in Schaltegger & Wagner's book is a good example of such a 'catalogue' text. He considered 12 variables impacted by the implementation of social responsibility practices: supply chain management; innovation; output productivity; input productivity; differentiation; reputation; the ability to attract employees; market positioning; communications; value for consumers; willingness to pay, and profits. The rest of this approach consists of marking on a scale of 1 to 6 a variety of levels (positive/negative or neutral impacts +3 hybrid marks +/-, n/+, -/n) representing how CSR effects depend on which orientations are being followed (media-oriented, consumer-oriented, NGO-oriented, supplier-oriented, state-oriented, employee-oriented, etc.).

The intrinsic difficulty of economic calculations of social responsibility practices becomes clear in studies that try to assess their impacts on corporate performance. Despite numerous publications in this area, this is an on-going debate marked by uncertain conclusions, even as meta-analysis of empirical studies suggests a slightly positive relationship between social and economic performance (Orlitzky, et al. 2003; Wood, 2010).

One difficulty underlying these studies relates to their attempt to connect degrees of CSR commitment and performance by bringing both down to the firm level. As suggested by Palpacuer (2008) in her analysis of global commodity chains, CSR practices can produce positive or negative effects outside of the firm itself. Typically, this involves the value chain. Thus, it is less the social and economic performance of one firm that should be examined than the same factors across the whole of the value chain.

In reality, the basic deficiency of the business case approach is the analytical unit that it has chosen. Such approaches are 'firm-centric' (Acquier & Aggeri, 2008) since they reason in terms of 'from the firm' or 'towards the firm' (notwithstanding whatever consideration they give to the environment and, above all, to stakeholders). The idea here is that firms are (alone) capable of making decisions that will ensure a modicum of coherency between their different social, environmental and economic objectives. It is a strong hypothesis.

Indeed, the business case approach considers the firm as an autonomous artefact. Corporate decisions are depicted as being relatively free of productive and economic constraints, with the CSR commitment decision deriving from a static cost-benefit analysis carried out without any consideration for feedback effects or external constraints forced upon the firm by its competitive and productive interactions. Yet many decisions affecting companies are taken outside of them. According to Langlois (2003) and Herrigel (2010), the past 30 years have been marked by a major move towards vertical disintegration and consequently each firm is tied to an increasing number of other firms. A firm's business can only be understood in light of what its counterparts are doing, irrespective of whether they operate upstream or downstream and whether their purpose is to buy components, materials or machines or else to satisfy customers. Corporate decisions depend in part on the conditions (delivery times, prices, etc.) that are imposed on a firm by its customers. Simultaneously, these decisions are also partially constrained by the company's suppliers. Clearly – depending on the firm in question – power is asymmetrical at this level. Some companies enjoy market power enabling them to act freely with respect to one or the other aspect of this relationship (upstream or downstream), although this is not the case for all. Nor does it apply to all interfirm relations that a particular company may entertain. For instance, a large multinational might dominate most of its suppliers but also have to deal with oligopolies as regards a specific component or raw material. In addition – and as we will see for the automotive industry – the power relationship is not always unequivocal. A firm can appear dominant even as the firms that it dominates pursue their own circumvention strategies.

In short, the business case focuses on the areas of action where companies are free to act but tends to ignore the fact that their margin of manoeuvre is often constrained. It is true that companies can modify their production processes to make them, for instance, more environmentally friendly. Yet any modification of this kind would have to be accepted by customers and suppliers, i.e. be compatible with the way in which the companies' operative upstream and downstream vertical relationships function. To reintroduce such constraints, several recent studies have focused on extending the business case approach, trying to justify the efficiency of committing to social responsibility practices by reasoning across the whole of the value chain.

**BROADENING THE ARGUMENT TO INCLUDE SUPPLIERS: APPROACHES CENTRING ON SUSTAINABLE/GREEN SUPPLY CHAINS**

Several scholars stress that a real development of CSR would benefit from interactions between firms. This is because decisions taken by one actor within a value chain have knock-on effects on its other members. In this perspective, new concepts in management have emerged like the 'green supply chain' (Zhu et al. 2007; Zhu et al., 2008) and the 'sustainable supply chain' (Linton et al., 2007; Seuring & Müller, 2008).

This body of work, which is still at an early stage, is not harmonised but does feature certain points of convergence marked by a number of shared principles. First of all, the perspective adopted in these studies is essentially managerial. Second, these studies' vision of CSR transcends the narrow boundaries of the firm since they consider truly responsible companies to be ones that succeed in structuring the whole of their value chain along responsible lines, from procurement upstream to customer delivery and product recycling downstream. Clearly, this extended scope means a considerable widening of the area under study.

A first aim is to ensure that each individual actor in the chain participates in the CSR approach: prime contractors, obviously, but also the whole fabric of suppliers and (further downstream) the recycling function, including actors responsible for waste collection and waste treatment. The role played by social or environmental certification is regularly highlighted in this area since it gives credibility to suppliers' product offers and reassures customers as to the veracity of any ethical statements that the prime contractor makes (Hughes et al., 2008; Perez-Aleman & Sandilands, 2008).

A second aim is to ensure that individual decisions are compatible with the construction of a responsible value chain. Thus, special attention must be paid ex ante to product design, with particular focus on its impact on the production process, any ancillary products associated with the product's utilisation, plus its lifecycle, lifespan, recycling and reprocessing (Linton et al., 2007). In addition, there is also a need to ensure that interfirm flows are socially responsible. Given logistic activities' significant environmental footprint, the subject is frequently analysed at both an upstream and downstream level (Quariguasi Frota Neto & Bloemhof-Ruwaard, 2008; Krikke et al., 2008).

This dual focus on individual agents and agent interactions raises questions about the different dimensions involved in the transmission of social responsibility practices up and down the value chain. Two series of works exist here. A first group of studies has tried to identify suppliers and prime contractors' respective roles, demonstrating, for instance, close interactions between the two groups and how this improves production processes' eco-performance (Seuring, 2004; Vachon & Klassen, 2008; Song & Di Benetto, 2008). Others are much more instrumental and offer matrices enabling interpretation and evaluation of suppliers' CSR commitments, as per the methodology formulated by Zhu, Sarkis and Lai (2008), who tried to assess different value chains' levels of social and environmental performance (see also, based on a case study methodology, Andersen & Skjoett-Larsen, 2009). In a more proactive view, but taking into account internationalisation and the degree of complexity of supply chains, Cramer (2008) proposed a 'step-by-step plan' to help firms to implement CSR in their supply chain. More recently, some economists have used their optimisation frameworks in order to identify which kinds of contracts schemes allow to simultaneously improve CSR and global profit in the supply chain (Ni & Li, 2012; Hsueh, 2014).

Another group of studies has extended scrutiny of the economic utility of suppliers' involvement in social responsibility approaches, particularly in sectors where brand image is important (such as agribusiness and textiles). There were

instances where 'the winning company' was the one that could certify its chain's level of involvement and by so doing earn itself marketing kudos (Christmann, 2004; Frenken & Scott, 2002). Several recent analyses have honed in on the fact that the certification practices implemented by suppliers (and more generally, across value chains) can create barriers to entry, a positive outcome justifying CSR commitment but also (and negatively) potentially damaging any SMEs or cooperatives operating in the developing world (Perez-Aleman & Sandilands, 2008).

Perez-Aleman and Sandilands's study opened up an interesting perspective with their attempt to reintroduce a supplier perspective. Studies on responsibility across the whole of a value chain suffer from what might be called 'prime contractor-centrism' because they focus on the economic utility for (and instruments available to) prime contractors and how this allows them to implement their own CSR approaches across the whole of a chain. This can be illustrated by an example from Seuring and Müller's paper (2008): the management of a sustainable supply chain is thought of in terms of a '*focal company*' which needs to manage downstream (suppliers) and upstream requirements (Government/Customer/Stakeholder). And when the authors speak about the economic performance of a sustainable supply chain, we need to understand the economic performance of the prime contractor, i.e. the focal company (e.g. Galllear et al., 2012). The role of suppliers is to contribute to the performance of the prime contractor, according to a top-down vision. The prime contractor manages its value chain in such a way as it itself appears socially responsible. This methodological choice is understandable when the goal is to examine multinational prime contractors who are under pressure from NGOs and enjoy great autonomy in terms of the suppliers they choose (e.g. Nike or Apple). But, it is only part of the story.

Intrinsically, studies in this field tend to adopt the same perspective as ones rooted in the business case approach. Their basic aim is to demonstrate that each prime contractor has the possibility (and efficiency) of organising *its own supply chain* in a socially responsible manner. The same questions as above arise here as well, namely which variables should be considered, how they should be ranked and how to calculate intangible elements such as effects on communities. As demonstrated in a study by Perez-Aleman and Sandilands (2008), measures that are ostensibly positive from a focal firm's perspective can be globally harmful if the criteria of responsibility are broadened. This harks back to certain problems associated with focal firms defining what constitutes socially responsible actions (and whom they benefit). Other problems are associated with defining the perimeter of firms impacted by such measures (direct suppliers). Responsibility is seen here through the prism of the extended firm. The positive measures that tend to be highlighted relate to the narrow register of things that the focal firm wants to measure. Yet several studies have shown that once the focus is broadened in this area, firms are all capable of engaging in both responsible and irresponsible actions (Mattingly & Berman 2006; Chatterji et al., 2009).

One blind spot found in many firms (probably intentionally) but also in earlier approaches (due to the inadequacy of their analytical apparatus) relates to how interfirm relationships actually function. The focus tends to be on ad hoc measures without there being any real analysis of mutual interactions between firms. The following sections use a case study approach to try and assess the outcomes of these interactions instead of firms' discourses or actions that they have undertaken. We reveal major contradictions between economic performance objectives and their social and environmental consequences.

## RESEARCH METHODOLOGY

The displacement of perspective consists of focusing on the constraints and opportunities associated with the way that vertical interfirm relationships operate. In other words, *our goal is to shift focus from firms themselves towards their relationships*. This will involve demonstrating that changes at this level can nurture new sources of tension together with opportunities for explaining firms' incentives/disincentives to commit to social responsibility practices.

From a methodological perspective, this demonstration requires a circumstantial argument as well as a modification of the methods used to investigate a specific sector. What we are studying here is the interfirm relations of the European automotive sector, where an abundant body of work provides precise information on the way in which manufacturers and 'tier one' suppliers relate to one another. We will check in the next section how such relationships determine practices that do or do not comply with environmental, social and economic objectives. But before this, we need to explain how our empirical study was conducted.

Our empirical materials are based on studies conducted under the GERPISA international network's fifth research programme, 'automotive industry and sustainable development' (Jullien, 2007). The purpose of this research programme was to understand what ambiguities might exist between the real practices of automotive industry companies (carmakers and suppliers) and their discourses asserting their aspiration of making the industry socially and environmentally friendlier (i.e. by offering cleaner vehicles and improving the productive system's environmental performance). Having designed the research programme along these lines, the network's members studied a number of different global carmakers and suppliers. GERPISA itself is an international research group with a wide diversity of social science researchers interested in the automobile. Its studies have provided empirical materials that despite their disparate nature (owing to the lack of a unified research methodology) have turned out to be very useful for our own research agenda thanks to the multiple viewpoints involved and the broad variety of questions examined. Some studies have related, for instance, to firms' strategic positioning in terms of transversal questions like the development of electrical vehicles and public-sector actors' role in this sphere (Freyssenet, 2011; Coffey & Thornley, 2013). Others have focused on specific questions such as how employment relationship models transfer into firms' new delocalisation spaces (Krzywdzinski, 2008) or the impact of rising inequality on driving rates (Jullien & Pardi, 2011; Demoli, 2015), etc.<sup>3</sup>. These studies have been built into a corpus of knowledge that can then be used as second hand data.

Within this general research programme, our own work has consisted of analysing the strategies used to implement socially responsible practices up and down the value chain. The focus here is on how carmakers behave towards their suppliers (purchasing charters for 'tier 1' suppliers, operational support for specific aspects like the implementation of the REACH directive, etc.) as well as suppliers' own actions (their own purchasing charters for lower tier suppliers, motives for joining institutional schemes like GRI, perceptions and translations of customers' charters and of relevant stakeholders, etc.). Thus, the initial research programme can be described as having analysed the transfer of socially responsible practices by means of a firm-centric methodology that would try to determine how firms define and implement socially responsible measures.

Our primary empirical materials have been collected from five sources. First, we conducted thirteen one hour semi-structured interviews, between 2010 and 2011, of people working for the main carmakers and suppliers operating in France. Some employees were directly in charge of CSR programs but we also

3. Aside from the references quoted in the text (and relating directly to explicit points), the reader can access most of these studies on the GERPISA website under the heading bibliography: <http://gerpisa.org/en/biblio>.



interviewed some employees less related to CSR policy (like purchasing managers and one R&D top manager). The interviews were designed to capture the employees' perception of the implementation of socially responsible practices in the automotive industry in general, and more specifically along the supply chain. We thus built up a database of verbatim information. Second, inspired by the methodology used by Shinkle and Spencer (2012) analysing the sustainability reports of carmakers, we read and extracted data verbatim from the sustainability reports of the three main French suppliers (Valeo, Faurecia, Plastic Omnium) and carmakers (Renault, Peugeot-Citroën). Third, we analysed reports produced by government and institution bodies working in France (e.g. Cornu, 2007) and Europe (CARS 21 High Level Group). Fourth, reports, communications and websites involving supplier associations (CLEPA at the European level and FIEV in France) and carmaker groups (respectively ACEA and CCFA<sup>4</sup>) were also studied, as were documents produced by NGOs and communities seeking to play an active role in designing the automotive world of tomorrow (e.g. Greenpeace, The World Carfree Network and Citoyens de la route). These groups were identified during the examination of the fifth source of information: the public debates retrieved from the European Community website relating to the implementation of environmental and safety measures in the automotive industry. We drew out a large number of extracts from all these different sources which were added to a global file (including verbatim transcripts of interviews). This combination of diverse sources has generated a discourse database gathered from different actors of the automotive world; actors who speak from different places and to different audiences.

Having compiled these primary and secondary materials, we recapped the ostensible motives of the two actors (carmakers and suppliers) to engage in socially responsible practices<sup>5</sup>. Comparing their respective viewpoints revealed a number of contradictions between their perceptions (particularly visible in European public debate and confirmed by interviews in which one side would regularly blame the other for certain delays), even as the discourse of external stakeholders such as associations and communities tended to criticise the duplicity of all industrialists (although carmakers more often) as well as politicians' refusal to significantly transform the automobile and its production system. At this point, research was redirected towards the analysis of interfirm *modi operandi*. Based on studies of automotive supply chain organisation and an extensive literature review covering the interfirm coordination system's transformations within the context of vertical disintegration – not to forget the rising power of mega-suppliers (Frigant & Jullien, 2014; Pratuco, 2014; MacDuffie, 2013) – the idea emerged that there is a need to resituate these initial discourses in a wider context, accounting for changes in interfirm relationships.

## **FINDINGS: OPENING THE BLACK BOX OF INTERFIRM INTERACTIONS IN THE AUTOMOTIVE INDUSTRY**

Three crucial aspects pertaining to the functioning of vertical interfirm relationships appeared problematic: the object of exchange; the physical transfer of such objects of exchange, and the applicable contract stipulations. For each of these three aspects of interfirm interactions, we have followed a similar approach, deducing CSR impacts after contextualising the key characteristics of the different ways in which carmaker/supplier relationships function.

4. CLEPA: Comité de liaison européen des fabricants d'équipements et de pièces automobiles, aka the European association of automotive suppliers; FIEV: Fédération des Industries des Équipements pour Véhicules; ACEA: European Automobile Manufacturers' Association; CCFA: Comité des Constructeurs Français d'Automobiles.

5. We used a critical discourse analysis methodology; we read carefully all the texts, noting the significant features of and commonalities and differences between the carmakers', suppliers' and other actors' point of views. We did a first interpretation of the results and then we came back to the original texts in order to assess contradictions and convergent information. This iterative method allowed us to highlight the items 'forgotten' by carmakers and suppliers, in particular thanks to the discourses of external stakeholders.

## FROM OSTENSIBLE CONVERGENCE AROUND PRODUCT DEFINITION TO CONFLICTS OF INTEREST

The trend towards greater vertical disintegration accompanying the growing modularisation of the automotive has somewhat rebalanced the power relationship between carmakers and large automotive suppliers (Sako, 2003; McDuffie, 2013). After an evolution of more or less fifteen years towards modularisation, the first tier suppliers are nowadays mega-suppliers who can be compared (in size and market power) to small carmakers (Klier & Rubenstein, 2008; Frigant, 2009). These suppliers have developed strategies enabling them to capture a growing share of the added value created up and down the supply chain. Firstly, they are autonomously (re)designing the modules that they offer carmakers in an attempt to pre-empt the latter's demands and differentiate themselves from competitors to achieve innovation rents (or, more defensively, to ensure that they offer a product that is specific enough that they will retain the business when contracts run out). Secondly, their strategy is to integrate new functionalities into modules, enhancing their commercial value as well as potential margins. In brief, they are offering increasingly complex modules (Frigant & Jullien, 2014).

One consequence of this complexification of modules is the transfer of technological control from carmakers to mega-suppliers. Thus, Morris and Donnelly (2006) have explained that for certain modules, carmakers possess approximate knowledge about the constraints and uses but have lost in-depth knowledge about production processes and the precise rules of their design. They talk about 'grey-box modules'.

At first glance, there is no obvious contradiction between modularisation and CSR. And both carmakers and mega-suppliers explain that they want to build safer and more environmentally friendly cars. Yet when things are studied in greater detail, it becomes evident that carmakers try to prevent a number of innovations that they consider difficult to sell to customers. It is at this level that a conflict of interest arises, namely in the fact that designing a car that is 'clean and safe' is not as much of a priority for both types of firms.

Globally, carmakers take a backseat when it comes to reinforcing safety or environmental standards. Few carmakers view these issues as the main objective of their product strategy (Mercedes and Volvo are probably the best exceptions), with most merely adhering to market standards, especially regulations. By studying the production of European regulations, what becomes clear is that these issues are a real bone of contention between suppliers and carmakers. For instance, carmakers have intensively lobbied European authorities not to tighten CO2 standards, something that Greenpeace has criticised (2008). On the other side, mega-suppliers (like Valeo, see Cornu, 2007: 35) have advocated more stringent standards because they hope to sell systems to reduce fuel consumption (the start-stop system for instance). A similar conflict emerged in 2007 during the negotiation of the car safety package. The carmakers prevent efforts aimed at tightening European legislation whereas the mega-suppliers, who see opportunities to sell high value-added equipment, want to accelerate the process<sup>5</sup>. In brief, from the carmakers' point of view, the reinforcement of environmental and/or safety requirements creates two basic problems: how to fund necessary innovations and higher unit return costs (due to the increase in embedded technologies) leading to higher sale prices or lower margins. From the suppliers' point of view, more stringent regulation is an opportunity to develop more sophisticated modules and thus to increase turnover and entry barriers.

Divergent interests with regards to the reinforcement of standards reflect the deeper issues that are at stake in interfirm relations. One such issue is finance, since suppliers tend to favour more stringent restrictions, seeing

6. See: [http://ec.europa.eu/enterprise/sectors/automotive/files/pagesbackground/safety/consultation/safety-features-and-tyres-consultation-responses\\_en.pdf](http://ec.europa.eu/enterprise/sectors/automotive/files/pagesbackground/safety/consultation/safety-features-and-tyres-consultation-responses_en.pdf).

One example was lane departure warning systems, with manufacturers asserting that the technologies involved are too recent to be made mandatory. Thus, the carmakers association said that, 'Automatic emergency braking and lane departure warning are systems, which have been introduced on the market rather recently. They are available in few vehicles lines only. We think any discussion about mandating these systems is very premature.' This stance differed greatly from the one adopted by the company's supplier alter ego, CLEPA, which asserted that these technologies were ready to go. The supplier Continental highlighted, 'Eight years of automatic emergency braking in the European market already. This is guaranteeing enough maturity for a large scale introduction and mandatory installation.'

opportunities to gain greater value from recent in-house R&D spending undertaken in the wake of greater modularisation. Within this framework, it is not at all surprising that mega-suppliers hope to see their efforts rewarded by legislation. Surfing anti-automotive association websites (as The World Carfree Network, <http://www.worldcarfree.net/>), it is easy to find criticisms of carmakers, who are accused of anti-depollution lobbying, accompanied by depictions of suppliers as offering technological solutions, the implementation of which is prevented by carmakers. Clearly, things are not as simple as this but the situation does reveal a real conflict. It also has another more strategic dimension, which is that getting manufacturers to accept these new technologies would increase their dependency on supplier technology. This is particularly problematic since they possess little knowledge of the new technologies, a weakness that would make it difficult for them to ever control said technologies completely (Calabrese, 2012; Cabigiosu, 2013).

To summarise, the new modularisation-related division of labour is a strong incentive for suppliers to develop knowledge, derive value from this base and leverage their R&D structures to offer social responsibility solutions (in this instance, cleaner and safer products). In terms of ambient discourse, this seems to represent a new consensus. In reality, carmakers have shown great resistance and conservatism due to their fear that 1) higher costs might lower margins or reduce demand because of positive price elasticity effects and 2) new innovations might increase the number of grey-box modules and reinforce the market power of mega-suppliers.

#### GOVERNING TRANSPORTATION FLOWS IN A WAY THAT IS INCOMPATIBLE WITH SOCIALLY RESPONSIBLE PRACTICES

A second problem relates to the logistical organisation of interfirm flows. From a functional perspective, the logic here is the same as above, based on the way that changes in interfirm relations lead to practices that contradict other practices that are seen as socially responsible by society as a whole. It remains that the underlying mechanism here is different in nature, if only because the contradiction with CSR objectives does not come from a divergence between carmakers' and suppliers' interests but instead from the shared construction of a production organisation that seeks economic efficiency to the detriment of socio-environmental effectiveness.

Within the automotive industry, flow management is a crucial organisational efficiency issue combining certain characteristics of mass production with assembly involving a large number of individual components. Fixed costs are very significant and any production chain interruptions are extremely expensive. Within this context, it is impossible to totally disassociate outsourcing issues from delivery constraints, since a close coordination of flows constitutes the foundation of value chain productive efficiency.

During the 1980s, authors highlighted that part of Japanese carmakers' efficiency stemmed from their management model, based on just-in-time principles enabling the internal rationalisation of organisations as well as their external extension (Womack, Jones & Roos, 1990). From this era onwards, what became clear was that the elimination of stocks led to greater transportation flows and increasingly exclusive reliance on road haulage. With a buffer zone organisation replacing traditional inventory accumulation, components had to be delivered in small quantities but at an increasingly rapid pace. Although the transporters' transition to a logistician's role enabled the optimisation of flows (Fulconis, et al. 2007), the just-in-time organisation – the symbol of economic efficiency and the 'optimal' coordination of interfirm flows – ended up consuming enormous quantities of energy and being terribly pollutant.

In this context, the rise of module production enabled a significant transformation of value chains' geographic organisation and transportation-related flows (Sturgeon, et al. 2008). To understand this, one might remember that modular production allows for a synchronous production of modules that have been pre-assembled in the form of macro-components delivered directly to manufacturers' plants. Most of these modules are singularly voluminous, fragile and dedicated to specific passenger vehicles. Furthermore, where carmakers' plants mix models on assembly lines, the modules' arrival must scrupulously follow the order of assembled models. In this cyclical production context, delivery constraints are very tight and an organisation that has generalised in conjunction with the move towards modularisation will need to ensure the greater proximity of supplier parks to carmakers and one another (Larsson, 2002). This organisational solution may have alleviated participants' dependency on transportation but it has also created an economic problem, i.e. greater mutual dependency between firms. To resolve this problem while restoring economies of scale, suppliers restructured their upstream supply chains by setting up factories in locations where they were in a position to pre-assemble the generic modules – i.e. ones that were not yet totally specified or dedicated – being sold to different manufacturers, even as they were making deliveries to the final module assembly sites located near the manufacturers' own premises. These meso-component plants were themselves supplied by simple component manufacturing factories that, albeit less subject to lean flows, were entirely capable of relatively mass production and, above all, could be relocated to low-cost countries (Frigant & Layan, 2009).

The direct effect of this productive-spatial organisation considerably increased transportation flows structured around a dual effect comprised of a proliferation of increasingly dispersed sites. Given these flow characteristics, suppliers have become particularly reliant on road haulage. This is because the value chain's productive coordination structure has probably never consumed as much road transportation as it does today. A Valeo study on the environment impact of this production process, based on the expertise accumulated in 35 of its factories, calculated that transport-related CO<sub>2</sub> emissions are equivalent to the industrial sites' own emissions (Valeo, 2007: 60).

As a result, the economic efficiency of this trio of outsourcing, lean flows and internationally fragmented production chains has meant poor environmental and social performance for the automotive supply chain. With further distances being travelled and delivery frequencies increased, the ensuing road haulage has been particularly damaging in terms of greenhouse gases, the depletion of natural resources, the deterioration of landscapes and road safety. In short, from a productive perspective, firms' mode of coordination has turned out to be socially irresponsible. In this, it is possible to denounce the cynicism of many automotive industrialists. Whereas carmakers and suppliers constantly use advertising to talk about the way they are designing vehicles that are increasingly ecological and safe, the production of said vehicles entails the use of increasing amounts of energy and innumerable trucks on the road. One of the factors driving this organisation belongs to the third dimension – contracts – since attempts to move into low-cost countries constitute a response to the price reduction that manufacturers demand.

## CONTRACT OBJECTIVES THAT PUT SOCIAL OBJECTIVES UNDER PRESSURE

A few years ago, when modularisation was just starting in the automotive industry, the hypothesis was advanced that its development would cause a turnaround in market power, one working to suppliers' benefit. This is actually quite a sensible argument since the extended delegation of design introduced by modularisation has led to an extension of tasks, product complexification and a

positive asymmetry with carmakers' technological knowledge (grey-box modules). In turn, this has deprived them of the ability to assess sales prices accurately or ensure the exclusivity of certain product offers with roots in knowledge accumulation effects.

With hindsight, it is clear that this scenario has not (yet) been achieved (Jacobides et al., 2012). Carmakers have deployed strategies enabling them to preserve their market power. Unable to counter suppliers' innovation in terms of modules, work has been done to limit their power-grabbing by diversifying sourcing channels from one model to another to ensure that no supplier finds itself in a monopoly position. Another aspect has consisted of only accepting innovations for certain models or model versions (sometimes as options) and only for as long as it takes suppliers and manufacturers to develop competitive product offers.

The 'success' of these practices can be indirectly perceived in automotive suppliers' mediocre economic performance. Analysis of economic results for 20 of the world's leading suppliers demonstrates that in the long term (the last decade), economic profitability (measured by gross operating profits or net earnings) has been weak, even zero or negative for five of them (Frigant, 2009). The current crisis (in Europe) simply amplifies these problems, with insufficient unit profit margins being compounded by lower sales volumes.

Carmakers continue to dominate the relationship and put suppliers under strong price pressures (ILO, 2005; Jacobides et al., 2012) that crystallise at two instances of the interfirm relation. Firstly, every time a model is renewed, cost objectives are set lower than before. Secondly, most of the multi-annual contracts set when a contract is signed include productivity gain targets that must be achieved over the contract period. These principles, developed by Japanese carmakers (but which seem to benefit any subcontractor capable of exceeding targets (Asanuma, 1989)), turn out to be traps if the targets are excessive.

In this context and since it is not really possible to cut capital costs or R&D spending, suppliers are trying to reduce production costs by delocalising some production units to low-cost countries. Each large automotive production zone is surrounded by a peripheral space featuring a mass of labour-intensive subsidiaries operating on behalf of suppliers or the second-tier subcontractors who supply them. Mexico plays this role for North America (Klier & Rubenstein, 2008) and North Africa and Eastern Europe do it for Western Europe (Domanski & Lung, 2009). In reality, interfirm relations' functional modes, based on these permanent cost reduction criteria, seem to contravene the social objective of maintaining jobs and good employment relationships in the developed world.

First, mega-suppliers are transferring jobs from developed countries towards new industrial spaces. It is true from a macro-economic point of view that these delocalisations enable job creation in those countries but it is also true that the new jobs constitute an opportunity to reduce the total distributed wages (Krzywdzinski, 2008). Moreover, the delocalisation threats are an instrument used by mega-suppliers in order to re-negotiate employment agreements and to put wages under pressure (Jürgens & Krzywdzinski, 2008; Krzywdzinski, 2014).

Tension levels are particularly high given that carmakers (and also the financial community) tend to view delocalisation strategies as a normal management objective for suppliers. Despite past denials, it is now known that one supplier selection criterion for carmaker purchasing managers is whether a supplier has production objectives in low-cost countries. This aim is often implemented more or less mechanistically, meaning that in certain cases, managers may prefer (to comply with internal objectives) a supplier located in a low-cost country or force a supplier to alter its location policy even if this decision is not justified in terms of economic profitability. Public awareness of this delocalisation constraint can be read between the lines in the measures adopted during the 2009 France General Automotive Conference, with state sector actors

and suppliers insisting on a 'Performance and good conduct code' being explicitly drafted on this occasion, replete with an article stating that, '*The customer agrees not to require that a modicum of production (or purchases) by the supplier or subcontractor involve a low-cost country if the ensuing price effects do not provide an objective economic justification for this. In particular, customers agree not to apply any minimum proportionality criteria in their own internal evaluation processes or the modalities used to define employees' fixed or variable remuneration.*' (Source: Performance and good conduct code, Paris, 09 February, 2009: 2 (our translation))

We must not forget that one justification for outsourcing is the desire to lower fixed costs and achieve permanent productivity gains by putting suppliers under pressure – an approach that is hard to reconcile with voluntary objectives aimed at improving working conditions and wage levels while maintaining jobs in the developed world. From a case study of Volkswagen, Beske, Koplín & Seuring (2006) showed the weakness of the social dimension in the implementation of CSR practices. 'Bringing the social context back in' to the governance of the value chain, as Palpacuer claimed (2008), is clearly not at the top of the agendas of carmakers or mega-suppliers.

In a sense, carmakers and large automotive suppliers behave similarly to many large firms in other sectors that have outsourced to the emerging economies regressive working conditions that they cannot enforce in countries operating at the centre of the global system (Barrientos, 2008). It is possible, however, that this internationalisation of production networks has created jobs in the emerging world and that the advance of global production networks has had a globally positive social effect. Large multinationals would in this case be best analysed as instruments of an economic development that several decades of state-driven policies were unable to achieve. Banerjee (2008) criticises this vision, however, considering it tantamount to a rhetorical expression on behalf of large multinationals who have manipulated discourse to neutralise serious questions about their behaviour. In this view, to publicise their social responsibility, companies highlight certain carefully chosen actions. At the same time, they forget to talk about (and even hide) other actions that are much less glorious. All in all, their actions should be construed as having had a negative effect. Several recent studies have tried to assess how the internationalisation of value chains has affected the quality and quantity of employment. What they have found is that any improvements have been minimal or even non-existent (Milberg & Winkler, 2013). The internationalisation of value chains and the threat of seeing them reconfigured along geographic lines remains a way of putting greater pressure on working conditions, be it in the developing or emerging world (ibid.). In reality, these analyses accord with our criticisms of the business case and sustainable/green supply chain approaches: the focus is on firms themselves and/or their extended direct networks, once the appropriate criteria have been chosen. The lesson from our automotive industry case study is that perspectives need to be broadened.

## **DISCUSSION: TOWARDS A THEORISATION OF INTERFIRM SOCIAL RESPONSIBILITY**

Amongst studies that try to explain why companies might engage in socially responsible practices, those commonly described as putting forward the business case for CSR play an ever greater role in both academic literature and organisations (Caroll & Shabana, 2010). This success can be explained by their goal, which is to demonstrate that certain measures are both 'good for the planet' and 'good for profits'. The first section of this article tried to demonstrate that

approaches of this kind are both selective in terms of the actions they study but also subject to bias due to the fact that they accept the possibility of rationalising certain decisions by means of economic calculations that can be too narrow for a full understanding of things. One key criticism in this article is that studies of this kind ignore how vertical relationships *really* function. Indeed, recent studies of sustainable and green supply chains suffer from a similar defect, insofar as they envision CSR from the perspective of a focal firm. Their reasoning remains utilitarian since it tries to justify why it is economically and socially efficient for the firm under study to disseminate CSR up and down its supply chain. Once again, the emphasis here is on what a firm acting freely can achieve by itself. Yet the real challenge in developing full-scale CSR lies elsewhere, namely in interfirm interactions. In an economy where vertical disintegration is on the rise, analysis must shift from the firm to interfirm relations.

The paper's third section used the example of the automotive industry to demonstrate that current forms of interfirm interactions are not very satisfactory, from an environmental or social perspective. Where carmakers and automotive suppliers say that they have committed to socially responsible *individual* practices (with most, for instance, having joined the Global Reporting Initiative) and explain to customers that they are manufacturing vehicles which are increasingly ecological and safe, analysis of the current organisation of interfirm relations reveals a modicum of incoherence between discourse and fact. We have shown that the interfirm interactions more or less contradict any real, massive increase in socially responsible practices.

In a sense, our study supports critical economic and management literature relating to the spontaneous emergence of a market for virtue (Vogel, 2005), the merits of private regulation and the incorporation of certain stakeholders capable of 'solving' environmental and social problems (Banerjee, 2008; Palpacuer, 2008; Brammer, Jackson & Matten, 2012). But, our aim has been less to emphasise the fragmented nature or unforeseen or poorly controlled consequences of current regulations (e.g. employment-related; Raj-Reichert, 2011; Barrantes, 2008; Seidman, 2008) and more to show that a blind spot exists regarding the functioning of the productive system itself. A real development of CSR depends on the capability to create an institutional framework<sup>6</sup> shaping firms' behaviours. And if CSR itself is necessarily an '*institutionalized feature of the corporate landscape in advanced industrial economies*' (Brammer, Jackson & Matten, 2012: 10), this institutionalisation process needs to take into account interfirm relationships.

Certainly, amongst the multitude of institutional infrastructures for CSR (which are formal institutions) that exist, several have tried to incorporate elements relating to the functioning of interfirm interactions (Waddock, 2008) and/or ask questions about ways of achieving this. This includes the UN Global Compact (Voegtlin & Pless, 2014), despite its difficult implementation (Williams, 2014). Nevertheless, and even if we do accept the argument put forward by Waddock (2008) that when firms adopt some institutional infrastructures they make real progress in terms of socially responsible practices, the institutional infrastructures remain largely incomplete as regards all of the different problems to which the present text alludes.

This is because interfirm interactions result from actions occurring outside of the firms themselves. They involve more global interactions rooted in economic operations that have been built through many long years of history. Each company in a value chain may have made its own contribution at a certain moment in time but it is the sum total of all firms (carmakers and suppliers) and relevant factors (regulations adopted over time, technological and organisational progress (such as just-in-time or modularisation), etc.) as well as their cumulative interactions that have forged the automotive productive system's current *modus operandi*. This makes it hard to find a single party to blame and precludes any

7. According to the institutional theory, an institutional framework pertains to formal institutions (law, business associations, trade unions, civil society groups, etc.) and informal institutions (religious norms, customary practices, etc.).

individual solutions. In addition, as noted by Chanteau (2011), the heterogeneity of CSR definitions (and in terms of institutional infrastructure, of the benchmarks that firms might be able to apply) makes it improbable that all firms working within a particular industry will shift simultaneously towards one and the same benchmark<sup>7</sup> (even if we were to hypothesise that it incorporates all of the concerns expressed in the present text). At that point, the question becomes whether it is realistic to hope, for instance, that all carmakers will suddenly and spontaneously opt for local content ratios to reduce road congestion. This is highly unlikely in a competitive context as harsh as the one that the automobile faces today – in a world where the first free rider tends to come out on top.

Having said that and as noted by Bair (2005), drawing attention to production networks' structural functioning constitutes a necessary precondition for identifying which directions are worth working on. Qualifying problems constitute a necessary precondition for ultimately putting them on the agendas of firms and more generally of actors who contribute to designing the institutional framework (whether this involves private certification bodies such as GRI or public entities like Global Compact). This was a clear motivation for writing this article. However, given that the definition of CSR and the benchmarks used to implement it must necessarily be based on certain underlying theoretical representations (Waddock, 2008; Voegtlin & Pless, 2014; Brammer et al., 2012), this article is also a plea for the development of a theorisation of interfirm social responsibility.

Several recently published French-language articles have gone down this path (Baudry & Chassagnon, 2012; Dupuis, 2008), pursuing the analytical objective of laying the foundations for a Transversal Responsibility Initiative defined as '*a reconfiguration of products and/or production processes implying a value chain comprised of several legally independent companies*' (Acquier et al., 2011:169, our translation). This latter proposal, which is largely yet to be constructed, offers an interesting perspective. But it is insufficient insofar as it remains far too centred on the internal perimeters of a particular value chain, neglecting the consequences outside of this supply chain's private sphere. Yet as noted in our analysis, there is a need to transcend the idea of strictly binary relationships given that what we are witnessing results from a technological, organisational and institutional trajectory superseding the strategic horizons of the actors involved in a particular supply chain. If we are to achieve real progress towards more responsible practices on the scale of an entire industry, it is necessary to introduce new actors operating outside of bilateral relationships. Taking a previous example, as shown by Levy (2008), the current organisation of global production networks (Coe, Dicken & Hess, 2008) did not occur outside of the institutional field. It is the changes in institutional frameworks that have enabled the constitution of the forms of supply chain internationalisation that we know today (Hughes et al., 2008). In other words, the institutional framework influences the functioning of interfirm interactions and creates opportunities for and constraints on CSR practices. Accordingly, a real development of CSR and the eradication of blind spots entail the building of a new institutional framework where interfirm interactions should be at the heart of reflections. It remains that this theorisation of interfirm social responsibility has yet to be constructed. We hope that the points raised in the present text will help to encourage theoretical work of this nature in the future.

8. By example, Shinkle and Spencer (2012) showed how each of the studied carmakers has constructed its own representation regarding global corporate citizenship expectations. The paper of Marais (2014) also suggests that we may be skeptical about the spontaneous emergence of a consensual point of view.



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